
***KANSAS MUNICIPAL
GAS AGENCY***
FINANCIAL STATEMENTS
DECEMBER 31, 2020

Contents

	Page
Independent Auditors' Report	1 - 2
Management's Discussion And Analysis	3 - 6
 Basic Financial Statements	
Statement Of Net Position	7
Statement Of Revenues, Expenses And Changes In Net Position.....	8
Statement Of Cash Flows.....	9
Notes To Basic Financial Statements	10 - 15

Independent Auditors' Report

Board of Directors
Kansas Municipal Gas Agency
Overland Park, Kansas

Report On The Financial Statements

We have audited the accompanying basic financial statements of Kansas Municipal Gas Agency, which comprise the statement of net position as of December 31, 2020 and 2019, and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kansas Municipal Gas Agency as of December 31, 2020 and 2019, and the results of its operations and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RubinBrown LLP

August 13, 2021

KANSAS MUNICIPAL GAS AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Years Ended December 31, 2020 And 2019

The management of Kansas Municipal Gas Agency (KMGA) offers readers of KMGA's financial statements this narrative overview of its financial activities for the years ended December 31, 2020 and 2019. We encourage readers to consider the information provided here in conjunction with the accompanying basic financial statements and notes to basic financial statements.

Overview Of The Reporting Entity

Under authority of the Kansas Interlocal Cooperative Act, twenty-seven Kansas municipalities formed KMGA as a separate legal entity in August 1990. Its main purpose was to assist its member cities in acquiring natural gas for their municipal utility systems. As of December 31, 2020, KMGA had 45 members and 4 affiliate members.

KMGA maintains its accounts in accordance with the uniform system of accounts for natural gas utilities prescribed by the Federal Energy Regulatory Commission (FERC). Because the accounting system for regulated utilities is used, the accounting principles applied by KMGA differ in certain respects from those applied by non-utility businesses. KMGA also follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Under the accrual basis of accounting used by KMGA, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

Financial Highlights

As of December 31, 2020 and 2019, KMGA's net position was \$577,566 and \$595,631, respectively, and current assets exceeded current liabilities by \$577,566 and \$595,631, respectively. KMGA has no long-term debt.

Changes in net position for the year 2020 were (\$18,065), compared to \$63,926 for 2019.

KANSAS MUNICIPAL GAS AGENCY

Management's Discussion And Analysis (*Continued*)

Overview Of The Financial Statements

This report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements: Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to Basic Financial Statements. Here, the reader is offered an overview and analysis of summary financial statements. Condensed Statements of Net Position are presented in Table 1. Table 2 provides Condensed Statements of Changes in Net Position. Condensed Statements of Cash Flows are summarized in Table 3. The Statement of Net Position presents information on all of KMGGA's assets and liabilities with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how KMGGA's capitalization changed during the most recent fiscal year. The statement of cash flows provides information about KMGGA's cash receipts and cash payments made during the reporting period. The notes provide additional information that is essential to a full understanding of the data provided in the statements.

Table 1: Condensed Statements of Net Position

	December 31,		
	2020	2019	2018
Assets			
Utility plant	\$ 13,677	\$ —	\$ —
Cash	1,792,109	1,272,994	1,267,303
Accounts receivable	2,214,559	2,085,002	4,220,747
Total Assets	4,020,345	3,357,996	5,488,050
Liabilities			
Accounts payable and accrued expenses	3,442,779	2,762,365	4,956,345
Net Position	\$ 577,566	\$ 595,631	\$ 531,705

KANSAS MUNICIPAL GAS AGENCY

Management's Discussion And Analysis (Continued)

A comparison of the year-end statement of net position shows that the net position has increased in 2020 as a result of revenues exceeding expenses for the year. (See below Table 2, Condensed Statements of Changes in Net Position).

Table 2: Condensed Statements Of Changes in Net Position

	December 31,		
	2020	2019	2018
Gas Supply Project Margin			
Project revenues	\$ 7,684,612	\$ 11,010,493	\$ 11,597,963
Gas and gas transportation	(7,441,538)	(10,691,809)	(11,302,508)
Total Gas Supply Project Margin	243,074	318,684	295,455
Other operating revenues	36,936	31,239	28,357
Total	280,010	349,923	323,812
Administrative expenses	(295,005)	(285,997)	(280,547)
Depreciation expense	(3,070)	—	—
Changes In Net Position	(18,065)	63,926	43,265
Total Revenues	\$ 7,721,548	\$ 11,041,732	\$ 11,626,320
Total Expenses	\$ (7,739,613)	\$ (10,977,806)	\$ (11,583,055)

Expenses exceeded revenues in 2020 due to a decrease in project margin. As for gas volumes, KMGGA transported (in MMBtus) 3,442,422 in 2018, 3,975,540 in 2019 and 2,988,570 in 2020.

Table 3: Condensed Statements Of Cash Flows

	December 31,		
	2020	2019	2018
Net operating revenues	\$ (18,065)	\$ 63,926	\$ 43,265
Depreciation	3,070	—	—
Changes in assets and liabilities	534,110	(58,235)	(764,146)
Net Increase (Decrease) In Cash	519,115	5,691	(720,881)
Cash - Beginning Of Year	1,272,994	1,267,303	1,988,184
Cash - End Of Year	\$ 1,792,109	\$ 1,272,994	\$ 1,267,303

KANSAS MUNICIPAL GAS AGENCY

Management's Discussion And Analysis (*Continued*)

Cash flows from operating activities are composed primarily of net revenues and changes in assets and liabilities. There are no cash flows from noncapital financing activities because KMGA has no debt and has not engaged in other financing activities.

Plant

There were no changes in KMGA's plant balance from 2018 to 2019. During 2020, KMGA acquired a remote leak detector for \$16,747.

Economic Outlook

During the month of February 2021, the natural gas industry in the Midwest experienced an unprecedented spike in gas prices for the period February 11, 2021 through February 19, 2021 (see Footnote 6 – Subsequent Events). Since that event, natural gas prices have stabilized and the cost of gas is expected to be stable through the rest of 2021. Because the Agency is structured where it bills Project participants for the actual cost of gas purchased, plus a markup to cover administrative costs, Agency revenues and gas costs are budgeted to increase in proportion with changes in gas prices.

Requests For Information

This financial report is designed to provide our members, investors and creditors with a general overview of KMGA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kansas Municipal Gas Agency, 6300 W. 95th Street, Overland Park, KS 66212.

KANSAS MUNICIPAL GAS AGENCY

STATEMENT OF NET POSITION

	Assets	
	December 31,	
	2020	2019
Plant		
Gas plant in service	\$ 16,747	\$ —
Accumulated depreciation	(3,070)	—
Total Plant	13,677	—
Current Assets		
Cash	1,792,109	1,272,994
Accounts receivable	2,214,559	2,085,002
Total Current Assets	4,006,668	3,357,996
Total Assets	\$ 4,020,345	\$ 3,357,996

Liabilities And Net Position

Current Liabilities		
Accounts payable and accrued expenses	\$ 3,442,779	\$ 2,762,365
Net Position		
Unrestricted	577,566	595,631
Total Liabilities And Net Position	\$ 4,020,345	\$ 3,357,996

KANSAS MUNICIPAL GAS AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For The Years	
	Ended December 31,	
	2020	2019
Operating Revenues		
Gas supply project	\$ 7,684,612	\$ 11,010,493
Membership dues	36,935	31,239
Total Operating Revenues	7,721,548	11,041,732
Operating Expenses		
Purchased gas	5,950,255	9,278,068
Gas transportation	1,491,283	1,413,741
Administrative and general	295,005	285,997
Depreciation	3,070	—
Total Operating Expenses	7,739,613	10,977,806
Net Operating Income (Loss)	(18,065)	63,926
Changes In Net Position	(18,065)	63,926
Net Position - Beginning Of Year	595,631	531,705
Net Position - End Of Year	\$ 577,566	\$ 595,631

KANSAS MUNICIPAL GAS AGENCY

STATEMENT OF CASH FLOWS

	For The Years	
	Ended December 31,	
	2020	2019
Cash Flows From Operating Activities		
Cash received from customers	\$ 7,608,738	\$ 13,177,477
Cash payments to suppliers for goods and services	(7,072,876)	(13,171,786)
Net Cash Provided By Operating Activities	535,862	5,691
Cash Flows Used In Capital And Related Financing Activities		
Cash payments for purchase of plant	(16,747)	—
Net Increase In Cash	519,115	5,691
Cash - Beginning Of Year	1,272,994	1,267,303
Cash - End Of Year	\$ 1,792,109	\$ 1,272,994
Reconciliation Of Net Operating Income (Loss) To Net Cash From Operating Activities		
Net operating income (loss)	\$ (18,065)	\$ 63,926
Adjustments to reconcile net operating income (loss) to net cash from operating activities:		
Depreciation	3,070	—
Changes in assets and liabilities:		
Accounts receivable	(129,557)	2,135,745
Accounts payable and accrued expenses	680,414	(2,193,980)
Net Cash Provided By Operating Activities	\$ 535,862	\$ 5,691

KANSAS MUNICIPAL GAS AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2020

1. Organization

The Kansas Municipal Gas Agency (KMGA or Agency) is a Kansas interlocal municipal agency created by twenty-seven Kansas municipalities in August 1990, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). The Interlocal Cooperation Agreement creating KMGA established it as a separate legal entity. As of December 31, 2020, KMGA had 45 full-member cities and 4 affiliate-member cities participating on a project basis. A Board of Directors, consisting of one representative from each full member, oversees the property and business of KMGA. KMGA is considered a jointly governed organization and a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

KMGA members are cities that either own or operate a gas distribution utility or use natural gas in other municipal utility operations. KMGA acquires, manages, schedules and balances natural gas supplies used by its members for local distribution and as fuel for electric generation. KMGA also assists members in complying with state and federal regulations, and provides informational and technical assistance with respect to natural gas supply and use.

2. Significant Accounting Policies

KMGA maintains its accounts in accordance with the uniform system of accounts for natural gas utilities prescribed by the Federal Energy Regulatory Commission (FERC) and the Kansas Corporation Commission. Because the accounting system for regulated utilities is used, the accounting principles applied by KMGA differ in certain respects from those applied by non-utility businesses. KMGA follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting and economic resources measurement focus is used by KMGA. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Revenue is earned at the time gas supplies or other services are delivered.

KANSAS MUNICIPAL GAS AGENCY

Notes To Basic Financial Statements (*Continued*)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires KMGGA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The costs of repairs and minor replacements are charged to operating expense as appropriate. Costs of renewals and betterments are capitalized. Depreciation is computed using the straight-line method based on an estimated five-year useful life.

KMGGA considers all accounts receivable to be fully collectible. Consequently, no allowance for doubtful accounts is necessary. Receivables are carried at original invoice amount.

As discussed in Note 4, all employees used by KMGGA are employed by the Kansas Municipal Energy Agency (KMEA) and related costs are charged to KMGGA through a management services agreement. Paid-time-off (PTO) vests and may be carried forward to the next year up to 480 hours. KMGGA's portion of the accrued liability for these compensated absences is funded through payments to KMEA.

3. Cash And Temporary Investments

Cash and temporary investments held on KMGGA's behalf are governed by Kansas statutes. All deposits and investments must be covered by Federal depository insurance or be adequately collateralized. Such collateral must be held in KMGGA's name by KMGGA's custodial banks. As required by statute, all investments are made in U.S. government obligations, securities collateralized by the U.S. government, and certain municipal obligations.

As of December 31, 2020 and 2019, KMGGA's cash deposits consisted only of cash.

Interest rate risk: The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2020 and 2019, the Agency did not hold any investments.

KANSAS MUNICIPAL GAS AGENCY

Notes To Basic Financial Statements (*Continued*)

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency does not have an investment policy which would further limit investment choices from state statute. As of December 31, 2020 and 2019, the Agency did not hold any investments.

Concentration of credit risk: The Agency places no limit on the amount the Agency may invest in any one issuer. As of December 31, 2020 and 2019, the Agency did not have more than 5 percent of the Agency's investments in one issuer.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of December 31, 2020 and 2019, the Agency's deposits were fully collateralized and not exposed to custodial credit risk.

4. Related Parties

KMGA is closely related to the KMEA. KMEA is a joint action agency created to secure electricity for its member cities, which own electric distribution utilities. In a comparable manner, KMGA secures natural gas supplies for its member cities, which own gas or electric distribution utilities. Due to their common membership and similar purposes, KMGA entered into a Management Services Agreement with KMEA on August 9, 1990, whereby KMEA employees managed KMGA's general operations and performed project-specific services.

The Management Services Agreement was superseded when the two agencies, on May 20, 1998, entered into the Interlocal Cooperation Agreement for Joint Administration, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). Under the Joint Administration Agreement, KMGA will continue to rely on KMEA employees to manage and administer KMGA's operations. For the services provided and related expenses incurred, KMEA bills KMGA at cost. The management services fee was \$281,400 in 2020 and \$270,000 in 2019. As of December 31, 2020 and 2019, accounts payable to KMEA were \$29,262 and \$26,352, respectively.

KANSAS MUNICIPAL GAS AGENCY

Notes To Basic Financial Statements (*Continued*)

The Joint Administration Agreement created the Joint Board for Administration, comprised of seven representatives: three each from the KMGGA and KMEA Board memberships, who together select the seventh representative. The Joint Board is empowered to (1) recommend annual budgets respecting the administrative activities of the agencies, (2) employ the General Manager of the agencies, (3) hear employment grievances of KMEA employees, and (4) recommend changes to the KMEA employment policies. KMGGA has no employees. The Joint Board is expressly prohibited from adopting annual budgets for KMGGA or KMEA or authorizing the issuance of any indebtedness of KMGGA or KMEA. Those powers remain with the respective Boards of KMGGA and KMEA.

5. Commitments And Contingencies

Gas Purchase Agreements

KMGGA and each Gas Supply Project participating city have entered into a Gas Acquisition Management Project Participation Agreement, which states that KMGGA may enter into gas purchase agreements on behalf of the Project participant and the Project participant is liable for the gas delivered under the agreement. Pursuant to the Participation Agreements, KMGGA periodically enters into Gas Acquisition Management Project Purchase Agreements to purchase gas on behalf of Project participants, where the gas quantity purchased is based on aggregating the nominations submitted by the participants. The Agency has entered into several fuel purchase contracts with various terms and conditions for the Agency's members in accordance with the underlying member agreements. Some purchases are made in the spot market and others are made at fixed prices and quantities over periods of up to twelve months.

Future monetary obligations to counterparties by the Agency are variable as the counterparty has the authority to adjust rates. The Agency has no risk of loss exposure from these contracts because the Agency has reciprocal contracts with its members that mirror the agreements with the counterparty.

KANSAS MUNICIPAL GAS AGENCY

Notes To Basic Financial Statements (*Continued*)

At December 31, 2020, KMGGA had the following purchase commitments:

Quantity (MMBTU/day)	Rate Type	Contract Start Date (if after year end)	Contract End Date
200	Fixed		3/31/2021
700	Gas Daily Average + rate per MMBtu		1/31/2021
400	Fixed		2/28/2021
500	Fixed	1/1/2021	2/28/2021
2,100	Index + rate per MMBtu	1/1/2021	1/31/2021
2,000	Index + rate per MMBtu	2/1/2021	2/28/2021
1,400	Index + rate per MMBtu	3/1/2021	3/31/2021
250	Fixed		2/28/2021
200	Fixed		3/31/2021
400	Fixed		3/31/2021
600	Gas Daily Index	1/1/2021	1/8/2021
400	Fixed		3/31/2021
18,600 *	Index + rate per MMBtu	1/1/2021	1/31/2021
15,400 *	Index + rate per MMBtu	2/1/2021	2/28/2021
10,850 *	Index + rate per MMBtu	3/1/2021	3/31/2021
2,400	Gas Daily Average + rate per MMBtu	1/1/2021	1/31/2021
250	Fixed		3/31/2021
350	Fixed		2/28/2021
1,100	Index - rate per MMBtu	1/1/2021	1/31/2021
900	Index + rate per MMBtu	2/1/2021	2/28/2021
500	Index - rate per MMBtu	3/1/2021	3/31/2021
900	Gas Daily Average + rate per MMBtu	1/1/2021	1/31/2021
140	Index + rate per MMBtu		3/31/2021
60	Gas Daily Average + rate per MMBtu		3/31/2021
100	Index + rate per MMBtu		3/31/2021
60	Gas Daily Average + rate per MMBtu		3/31/2021

*MMBTu per period

Risk Management

KMGGA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. Insurance settlements have not exceeded insurance coverage for the past three years.

6. Subsequent Events

In February 2021, severe cold weather in the Midwest led to an unprecedented spike in gas prices for the period February 11, 2021 through February 19, 2021 (Weather Event) as indicated by the daily gas prices published by the S&P Global Platts. The severe cold weather forced shutdowns of natural gas production in areas not typically accustomed to extreme cold weather, immediately tightening supply. At the same time, the severe cold weather led to significant increases in natural gas demand.

During the Weather Event, the price of natural gas to KMGGA reached over \$600/MMBtu for some gas supply. KMGGA was able to supply all of the needs of its members during the Weather Event.

KMGGA incurred over \$44,000,000 in natural gas costs for the month of February 2021 that were ultimately invoiced to its members. The February 2021 natural gas costs are significantly more than KMGGA's annual budget for natural gas supply. To support its constituents in their ability to pay the amounts due related to the Weather Event, the Kansas State Legislature passed legislation on March 4, 2021 creating a "City Utility Low-Interest Loan Program" (the Program) which provided cities across Kansas access to state funds at low interest rates for a term up to 10 years. Many KMGGA members received loans from the Program. All of KMGGA's member cities paid their respective invoices for the month of February 2021. In turn, KMGGA was able to pay in full all of its suppliers. As part of KMGGA's payment to its suppliers, KMGGA protested each invoice.

The Federal Energy Regulatory Commission has opened an investigation to examine the wholesale natural gas and electricity market activity during the Weather Event to determine if any market participants engaged in market manipulation or other violations. In addition, the Kansas Attorney General is investigating whether natural gas suppliers had engaged in price gouging. KMGGA has cooperated with both investigations and continues to monitor the progress. In addition, KMGGA is exploring other options and remedies to pursue due to the unprecedented high gas prices.